

INVESTMENT FORECAST

Office
Seattle-Tacoma Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

Retail Landscape Set on Recovery Path as Urban Areas Witness Renewing Midweek Foot Traffic

Retailer demand aided by burgeoning office sector recovery. Local vacancy will remain at least 100 basis points below all other major West Coast markets this year, as a negligible injection to stock limits supply-side pressure. Coinciding with this tepid pipeline, net absorption in the office sector is expected to return to positive territory in 2024, potentially motivating more retail tenants to expand and capitalize on returning midweek foot traffic. The Eastside stands out in this regard, with Amazon and other tech companies opening new offices here late last year amid a push to bring workers back to in-person attendance. However, local retail vacancy has been the tightest in the metro, at 2.2 percent entering 2024, reflecting a shortage of available spaces in the submarket. This restraint could shift some expanding tenants to Downtown Seattle, where midweek foot traffic also appears to be on the upswing. At the start of the year, more than 15 office-using firms were slated to move into local floor plans over 10,000 square feet. This could kickstart space demand from retailers in the CBD, after it posted seven consecutive quarters of net relinquishment moving into 2024.

Interest rate cuts could begin to shift trading geography. As lending constraints start to ease in 2024, higher-cost urban locations may register improvements in deal flow. Last year, one-third of all trades took place in suburban Tacoma, Spanaway and University Place-Lakewood. Across these submarkets, assets generally penciled at per-square-foot prices under the metro average, facilitating a greater share of deals by limiting buyers' total borrowing costs. As interest rates may potentially tick down in 2024, investor appetite for discounted urban assets may rise. Improving midweek foot traffic, particularly in Seattle and Bellevue's CBDs, will enhance the potential of this trend.

2024 MARKET FORECAST

+1.2%



EMPLOYMENT: While overall job growth will slow to 27,000 positions in 2024, office-centric hiring continues at the same pace as last year, with approximately 1,000 roles added.

170,000
sq. ft.



CONSTRUCTION: Tacoma and Seattle, respectively, anticipate the completion of 70,000 and 100,000 square feet in 2024. These slates combine to bump up marketwide inventory by just 0.1 percent.

+20 bps



VACANCY: Several long-standing retailers continue to reduce their physical presence in Seattle, citing operational challenges. This contributes to bumping up overall vacancy to 3.5 percent.

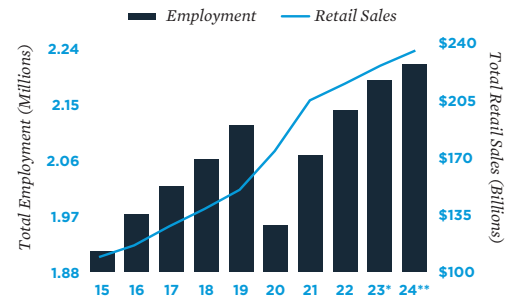
-0.2%



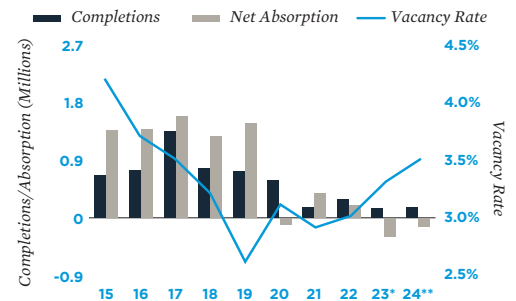
RENT: The average asking rent will decrease for the first time since 2013, to \$24.76 per square foot, as seven-year high vacancy motivates some operators to adjust marketed rates.

INVESTMENT: Assets near the Stadium District and Yakima Hill could see more investor interest in 2024. The Hilltop Link light rail station opened here late last year, bringing in greater levels of weekend foot traffic.

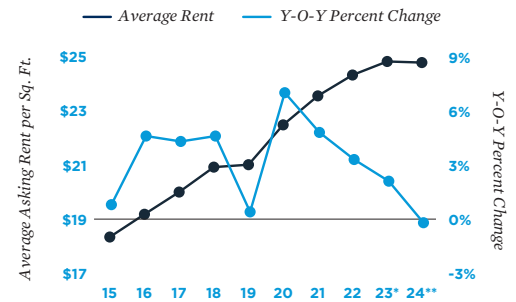
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 3/2023. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.